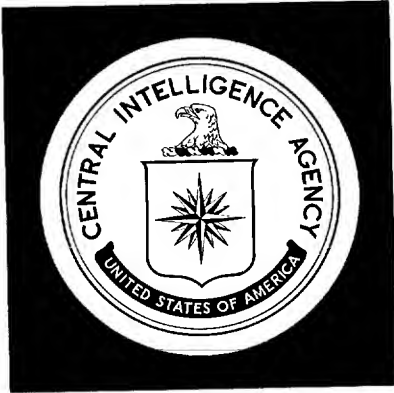


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MALAYSIA-USSR: Kuala Lumpur and Moscow have negotiated a draft agreement calling in general terms for Soviet economic and technical assistance, but the agreement is unlikely to result in large Soviet aid projects in Malaysia any time soon.

The agreement stipulates that the actual terms of Soviet assistance to Malaysian development projects will be negotiated on an individual project basis. Prime Minister Razak, who will sign the final agreement during his Moscow visit in September, apparently believes that Soviet assistance can be restricted to a few token projects, none of which would involve military aid.

The Soviet Union has important economic reasons for seeking the aid agreement. Malaysian rubber sales to Moscow have been largely responsible for a bilateral Soviet trade deficit that has averaged \$105 million annually over the past five years and has been settled in hard currency. The Soviets would like to alleviate the annual imbalance by shipping machinery and equipment for aid projects.

Malaysia is not enthusiastic about Soviet economic or technical assistance, but Prime Minister Razak probably feels that the new agreement will help Malaysia's nonaligned foreign policy and ensure continued purchases of Malaysian rubber. Malaysia continues to view Soviet assistance with caution because it fears the possible implications for its security of allowing large numbers of Soviet technicians in the country.

The Malaysians have proved tough negotiators so far, and any projects established under the new agreement will involve only limited numbers of Soviet personnel and equipment. Kuala Lumpur will probably try to negotiate projects in which the Malaysians have enough expertise and trained personnel to keep the Soviet role at a minimum.

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